

Executive Summary

In the past 20 years, a number of governments have sought to involve the private sector in the development and management of their water systems. Financing the achievement of the Millennium Development Goal (MDG) targets for water and sanitation in developing countries requires substantial investments. Based on the latest estimates, halving the proportion of people without access to drinking water and sanitation by 2015 would entail investments of some USD 72 billion per year. Both additional funding and more efficient use of available resources are necessary. In order to meet the tremendous needs, *Water at a Glance*, an OECD information base developed to support this work, shows that most developing countries have sought to involve the private sector to varying degrees and for various objectives, as a source of financing and/or to improve efficiency in service delivery, reduce costs, contribute to long-term sustainability and favour technology transfer.

Forms of private sector participation vary widely. The private sector players operating in the water and sanitation sector are diverse and fragmented: they include international operators, local and regional actors, private sector firms whose core activity is not water including large users (such as the beverage and mining companies) and the financiers, joint ventures between public and private companies as well as public companies operating abroad as private participants in competitive bidding. In a number of countries, small-scale private providers have helped alleviate the deficiencies of service provision where it has failed to keep pace with rapid population growth and urban migration. Risk-sharing arrangements are becoming increasingly context-specific and covering the overall spectrum from full divestiture to non-financial forms of participation.

A number of experiences involving the private sector have fallen short of expectations. In particular, the expected flow of private investment did not materialise. The main causes were often a poor understanding of the risks and opportunities involved by private sector participation in a complex sector as well as inadequate framework conditions. The specificities of the water and sanitation sector may help explain the difficulties of and constraints on private participation: i) the sector involves high fixed costs coupled with long-term irreversible investments, ii) water is a basic need with important externalities on health, gender equality and environment, which justify government intervention, iii) water and sanitation are managed at the local level, exposing the private sector to sub-sovereign risk, iv) the organisation of the sector is complex, due both to the number of stakeholders and to the segmentation of responsibilities across government tiers and agencies, v) the necessarily long-term relationship exposes the partners to a number of risks, including contractual, regulatory and foreign-exchange risks.

Harnessing more effectively the efforts of the diverse private players requires a focus on aspects that go “beyond money”, and particularly on sound policy and regulatory frameworks, adequate allocation of risks and improved accountability. In particular, while

most countries have increased their efforts to achieve regulatory stability and predictability, regulatory frameworks often remain incomplete. In many countries, the water sector is still characterised by a multiplicity of government agencies responsible for implementation and oversight. There often is an unclear allocation of responsibilities across stakeholders: across public and private partners, but also across different government tiers and agencies. Maintaining the flexibility required to sustain long-term commitments in a constantly changing environment while ensuring regulatory stability also is a great challenge for most countries wishing to attract private participation.

In light of this experience and taking account of the above factors, **a Checklist for Public Action has been developed by the OECD** and its partners to assist governments wishing to engage the private sector in the water sector. It highlights five areas of key importance:

- deciding on the nature and modalities of private sector participation;
- providing a sound institutional and regulatory environment for infrastructure investment;
- ensuring public and institutional support for the project and choice of financing;
- making the co-operation between the public and private sectors work in the public interest; and
- encouraging responsible business conduct.

The Checklist for Public Action makes four general recommendations to governments and provides policy directions and country practices to assist in their implementation

- Clarify the ultimate objectives for service provision and the contributions that the private sector can make. This involves clarifying the roles and responsibilities of the diverse private partners and defining the modalities of their involvement so that the partnership is tailor-made to local specificities and provides the incentives for a sustainable cooperation in the public interest.
- Develop a conducive framework based on high quality regulation and political commitment (including a commitment to fight corruption). The allocation of roles across responsible authorities and coordination mechanisms should be clearly defined to support effective implementation of regulations and contractual provisions. This is valid regardless of the private or public nature of water operators.
- Root the partnerships in strong accountability mechanisms through clear and consistent output-based contractual arrangements, monitoring and relations based on information-sharing and on consultation with stakeholders.
- Private actors also have an important role to play and responsibilities in ensuring the sustainability of partnerships and that their contributions make a difference in improving the lives of millions of people. This involves participating in good faith and with commitment, promoting integrity, communicating with consumers, and effectively managing the social and environmental consequences of their actions.